

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-02 PRS-01 OES-05 FEA-01 INT-05

AGR-10 /132 W

----- 037034

R 131906Z JUN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1972

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 03 LONDON 09114

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING JUNE 13

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BEGIN SUMMARY: THE TRENDS OF RISING INFLATION AND DEEPEN-

ING RECESSION GO SERENELY ON, AND INCREASING WORRY ABOUT THE SITUATION PUSHED STERLING TO A NEW OVERALL LOW. THE TRADE BALANCE, HOWEVER, IS STRENGTHENING AT A SURPRISINGLY RAPID RATE. END SUMMARY

1. STERLING. FOR THE SECOND TIME IN LESS THAN A MONTH, STERLING CAME UNDER STRONG MARKET PRESSURE AND FELL TO NEW LOWS AGAINST THE CURRENCIES OF BRITAIN'S MAJOR TRADING PARTNERS. ON THE BASIS OF THE BANK OF ENGLAND'S TRADE-WEIGHTED MEASURE OF STERLING DEPRECIATION (SINCE SMITHSONIAN), THE POUND FELL TO A RECORD LOW OF 26.2 PERCENT ON THURSDAY (JUNE 12) AFTER HAVING TOUCHED AS LOW AS 26.5 PERCENT DURING THE MID-DAY. VIS-A-VIS THE DOLLAR, SPOT STERLING FELL 440 POINTS WITH THE MAJOR DETERIORATION OCCURRING ON WEDNESDAY AND THURSDAY (JUNE 11 AND 12). FOREIGN EXCHANGE DEALERS CONTINUE TO CITE CONCERN AND UNCERTAINTY OVER THE UK GOVERNMENT'S ABILITY TO CONTROL THE RATE OF INFLATION AS THE PRINCIPLE CONTRIBUTORY CAUSE OF THE WEAKNESS. THERE WERE REPORTS MID-WEEK OF MAJOR MOVEMENTS OUT OF STERLING BY EUROPEAN FINANCIAL CONCERNS WHICH GENERATED THE RUN. PRESS REPORTS INDICATE THAT THE BANK OF ENGLAND INJECTED \$100 MILLION TO SUPPORT THE RATE ON THURSDAY.

2. TRADE. THE UK RECORDED A SURPLUS ON CURRENT ACCOUNT IN MAY WITH A SURPRISING NON-OIL TRADE SURPLUS ONLY BARELY OFFSET BY AN OIL DEFICIT. THE USUAL MONTHLY INVISIBLE SURPLUS BROUGHT THE CURRENT ACCOUNT INTO A 104 MILLION POUND SURPLUS. THE OIL DEFICIT WAS 226 MILLION POUNDS, CLOSE TO ITS LEVEL OF THE PAST 3 MONTHS. THE NON-OIL ACCOUNT WAS 210 MILLION POUNDS IN SURPLUS, FOR A VISIBLE TRADE DEFICIT OF ONLY 16 MILLION POUNDS. SOME OF THE SURPRISINGLY STRONG NON-OIL ACCOUNT PERFORMANCE IS ATTRIBUTED TO A CATCHING UP ON EXPORT SHIPMENTS AFTER THE LONDON DOCK STRIKE OF MARCH, BUT IT IS ALSO NOTED THAT IMPORT VALUE FELL IN MAY.

3. RETAIL PRICES. THE RETAIL PRICE INDEX JUMPED BY 4.2 PERCENT IN MAY FROM 129.1 TO 134.5. OVER THE PAST 12 MONTHS, RETAIL PRICES ARE NOW UP BY 25 PERCENT, AND HAVE UNCLASSIFIED

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INCREASED AT AN ANNUAL RATE OF OVER 30 PERCENT IN THE PAST 3 MONTHS. MUCH OF THE MAY INCREASE IS ATTRIBUTED TO THE INDIRECT TAX HIKES IN THE APRIL 15 BUDGET IN WHICH INTER ALIA VAT ON MOST CONSUMER DURABLES WAS RAISED FROM 8 PER-

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CEA-01 L-03 H-02 PA-02 PRS-01 OES-05 FEA-01 INT-05

AGR-10 /132 W

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R 131906Z JUN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1973

INFO AMEMBASSY BERN

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AMEMBASSY DUBLIN

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CENT TO 25 PERCENT FROM MAY 1, 1975 (JANUARY 1974 EQUALS 100).

4. WHOLESALE PRICES. THE INDEX OF WHOLESALE OUTPUT PRICES (DOMESTIC GOODS, EX-FACTORY) ROSE 2.7 PERCENT, FROM 182.3 IN APRIL TO 187.3 IN MAY (1970 EQUALS 100). MUCH OF THE
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RISE IS ATTRIBUTED TO THE RISE IN EXCISE TAXES ON TOBACCO AND ALCOHOL INTRODUCED IN THE APRIL 15 BUDGET AND EXCLUDING THE TAX-INDUCED RISE, THE INDEX ROSE BY LESS THAN 1 PERCENT. FOR A YEAR, THE INDEX IS UP BY 25.7 PERCENT. WHOLESALE INPUT PRICES (RAW MATERIALS AND FUELS) ROSE 1.1 PERCENT, FROM 222.8 IN APRIL TO 225.2 IN MAY. OVER A 12-MONTH PERIOD THIS INDEX IS NOW UP ONLY 5.2 PERCENT.

5. INVESTMENT. THE LATEST DEPARTMENT OF INDUSTRY INVESTMENT INTENTIONS SURVEY INDICATES THAT FIXED CAPITAL EXPENDITURE BY MANUFACTURERS WILL DECLINE BY 15 PERCENT IN 1975 OVER 1974. THE SURVEY SHOWS COMPANY INTENTIONS ARE TO INVEST ABOUT THE SAME LEVEL IN 1976 AS IN 1975.

6. INVESTMENT. PROVISIONAL FIGURES INDICATE THAT FIXED CAPITAL EXPENDITURE BY ALL INDUSTRY FELL BY 9.6 PERCENT (SEASONALLY ADJUSTED) IN THE FIRST QUARTER OF 1975 OVER THE FOURTH QUARTER OF 1974. FIXED INVESTMENT IN MANUFACTURING FELL BY 8.2 PERCENT FOR THE SAME TIME FRAME. FOR BOTH SERIES, THE FIRST QUARTER 1975 FIGURE IS BELOW ANY OF THE 4 QUARTERS OF 1974.

7. RETAIL SALES. SPENDING TO AVOID THE TAX INCREASES IN THE APRIL 15 BUDGET BOOSTED RETAIL SALES ANOMALOUSLY. THE FINAL APRIL INDEX NUMBER IS 120.2 (1971 EQUALS 100), COMPARED TO 109.4 IN MARCH. THIS IS A RISE OF 9.9 PERCENT BETWEEN THE TWO MONTHS.

8. CONSUMER CREDIT. THE APRIL SPENDING SPREE ALSO INDUCED A 15.8 PERCENT RISE IN INSTALLMENT CREDIT EXTENDED BY FINANCE HOUSES AND RETAILERS. SUCH CREDIT HAD FALLEN IN EACH OF THE FIRST 3 MONTHS OF THIS YEAR.

9. OUTPUT. STEEL PRODUCTION FELL IN MAY TO ITS LOWEST LEVEL SINCE FEBRUARY 1972, WHEN IT WAS DISRUPTED BY A COAL MINERS STRIKE.

10. FORECASTS. THE NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL RESEARCH (NIESR) FORESEES LOW GROWTH, RISING UNEMPLOYMENT, CONTINUED INFLATION FOR THE UK IN ITS QUARTERLY FORECAST. NIESR CALLS FOR A STRENGTHENED INCOMES POLICY

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(SEE SEPTTEL). FOR BROKERAGE FIRMS' ESTIMATE OF BALANCE OF PAYMENTS IMPACT OF NORTH SEA OIL 1975-1980, SEE LONDON A-528, DATED JUNE 10, 1975.

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11. EXCHANGE RATE AND GOLD:

6/5 6/12 CHANGE

EXCHANGE RATE \$2.3225 \$2.2785 DOWN \$0.0440

EFFECTIVE DEPRECIATION

(PERCENT) 24.6 26.2 WIDENED 1.6
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GOLD \$165.25 \$166.00 UP \$0.75

12. FORWARD DISCOUNT ON STERLING:

	6/5	6/12	CHANGE
1 MONTH	0.80	0.95	UP 0.15
3 MONTHS	2.55	2.90	UP 0.35
6 MONTHS	5.40	5.85	UP 0.45

(ALL FIGURES IN CENTS)

13. EURODOLLAR INTEREST RATES:

	6/5	6/12	CHANGE
1 MONTH	5-7/8	5-1/2	DOWN 3/8
3 MONTHS	6-1/4	5-7/8	DOWN 3/8
6 MONTHS	7-1/8	6-3/4	DOWN 3/8

14. LOCAL AUTHORITY DEPOSIT RATES:

	6/5	6/12	CHANGE
1 MONTH	9-3/8	9-3/8	UNCHANGED
3 MONTHS	10	9-7/8	DOWN 1/8
6 MONTHS	10-3/8	10-1/8	DOWN 1/4

15. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 10 PERCENT ON FRIDAY, JUNE 13, 1975.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TRADE BALANCE, INFLATION, ECONOMIC TRENDS, ECONOMIC REPORTS, RETAIL PRICE INDEXES, INVESTMENT DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 13 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LONDON09114
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750207-0643
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750653/aaaabvzi.tel
Line Count: 310
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 27 FEB 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27 FEB 2003 by PhilliR0>; APPROVED <12 FEB 2004 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS - WEEK ENDING JUNE 13 UNCLASSIFIED
TAGS: ECON, UK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006